

CREDIT OPINION

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Town of Lexington, MA

New Issue

Summary

The [Town of Lexington, Massachusetts](#) (Aaa stable) continues to benefit from a growing local economy, high demand for development and its proximity to Boston. Projections for sustained revenue growth support management's aggressive funding of reserves and capital planning. Large capital projects in the medium term will increase the town's already moderate leverage, which will be partially offset by property tax growth and build up of capital reserves.

Credit strengths

- » Dynamic local economy and high resident incomes
- » Ample reserves and liquidity

Credit challenges

- » Large capital projects anticipated over the long-term
- » Revenue constraints under the Proposition 2 ½ tax levy limit

Rating outlook

The stable outlook reflects Lexington's local economy characterized in its strong economic growth as part of the Boston metro area, biotech industry presence and very high resident incomes and property wealth. The stable outlook also incorporates the town's very high reserves which have been maintained over several years while continuing to fund pension and OPEB liabilities.

Factors that could lead to an upgrade

- » Not applicable

Factors that could lead to a downgrade

- » Significant deterioration in reserves and liquidity
- » Increase in long-term liabilities exceeding current capital plans
- » Contraction of local economy

Key indicators

Exhibit 1

Lexington (Town of) MA

	2018	2019	2020	2021	Aaa Medians
Economy					
Resident income ratio (%)	259.1%	268.5%	253.7%	N/A	173.2%
Full Value (\$000)	\$10,863,785	\$12,008,479	\$12,008,479	\$13,471,182	\$8,668,233
Population	33,480	33,340	33,304	34,235	36,139
Full value per capita (\$)	\$324,486	\$360,182	\$360,572	\$393,492	\$225,444
Economic growth metric (%)	N/A	0.7%	0.5%	0.7%	-0.6%
Financial Performance					
Revenue (\$000)	\$270,188	\$290,393	\$304,853	\$314,265	\$101,271
Available fund balance (\$000)	\$116,364	\$109,936	\$116,230	\$115,572	\$60,284
Net unrestricted cash (\$000)	\$174,041	\$185,652	\$171,268	\$166,069	\$85,080
Available fund balance ratio (%)	43.1%	37.9%	38.1%	36.8%	62.5%
Liquidity ratio (%)	64.4%	63.9%	56.2%	52.8%	89.9%
Leverage					
Debt (\$000)	\$193,251	\$219,206	\$238,964	\$217,687	\$71,359
Adjusted net pension liabilities (\$000)	\$95,021	\$124,707	\$155,597	\$207,877	\$120,889
Adjusted net OPEB liabilities (\$000)	\$211,241	\$213,653	\$266,565	\$293,285	\$14,025
Other long-term liabilities (\$000)	\$1,552	\$1,730	\$2,272	\$2,341	\$3,650
Long-term liabilities ratio (%)	185.5%	192.6%	217.6%	229.5%	257.7%
Fixed costs					
Implied debt service (\$000)	\$0	\$14,239	\$15,982	\$17,113	\$4,843
Pension tread water contribution (\$000)	\$1,431	\$1,516	N/A	N/A	\$3,247
OPEB contributions (\$000)	\$9,372	\$8,103	\$8,427	\$8,884	\$517
Implied cost of other long-term liabilities (\$000)	\$0	\$114	\$126	\$163	\$244
Fixed-costs ratio (%)	4.0%	8.3%	8.5%	10.4%	11.3%

For definitions of the metrics in the table above please refer to the [US Cities and Counties Methodology](#) or see the Glossary in the Appendix below. Metrics represented as N/A indicate the data were not available at the time of publication. The medians come from our most recently published [US Cities and Counties Median Report](#). The Economic Growth metric cited above compares the five-year CAGR of real GDP for Boston-Cambridge-Newton, MA-NH Metropolitan Statistical Area to the five-year CAGR of real GDP for the US.

Sources: US Census Bureau, Lexington (Town of) MA's financial statements and Moody's Investors Service, US Bureau of Economic Analysis

Profile

Located in Middlesex County, the Town of Lexington is a wealthy suburb 11 miles northwest of the [City of Boston](#) (Aaa stable). The town has a population of 34,235, as of the 2021 American Community Survey.

Detailed credit considerations

Economy: Growing, in-demand local economy anchored by wealthy residential sector

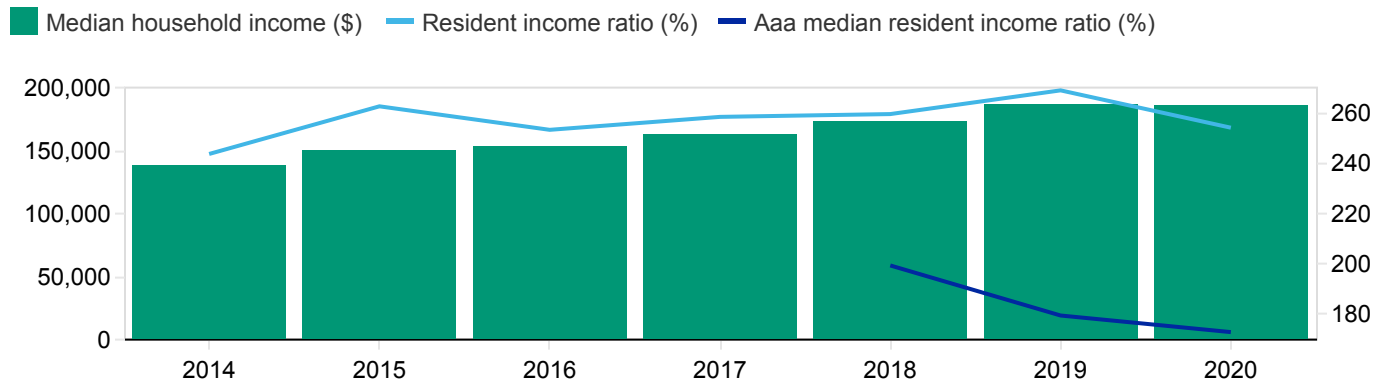
Lexington's local economy is expected to continue growing given its strong residential market and ongoing demand for commercial and industrial space, primarily related to life science and biotech industries. The town additionally benefits from its proximity to Boston. The local economy is part of the strong greater Boston MSA with a 0.7% growth rate (Boston MSA five-year CAGR of real GDP compared to the US GDP growth rate).

The town's economic development plans remain strong and focused on rezoning initiatives for higher density areas and to continue to focus on providing laboratory and manufacturing space to support life science, biotech and pharmaceutical industries. Management reports very limited vacancy in commercial properties with newer buildings being fully leased before completion, reflecting very high demand. The town's top ten largest taxpayers collectively equal 8.75% of 2023's full value; the largest taxpayer, [Takeda Pharmaceutical Company Limited](#) (Baa2 positive), represents only 2.2%. Takeda is also a top employer and is currently expanding its footprint in town.

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Resident income and property wealth are very strong. Resident income, calculated as median household income adjusted for the regional price parity of the Boston metro area, is 253.7% of the US resident income. Additionally, full value per capita has been increasing, reflecting tax base valuation growth against a fairly stable population. Full value per capita, calculated with 2023 full value and 2021 population (most recent year data is available) is \$459,915.

Exhibit 2

Resident Income

Source: Moody's Investors Service

Financial operations: Economic growth driving reserves strategy

Lexington's financial position is expected to remain exceptionally strong given preliminary estimates for fiscal 2022 and revenue growth projections through 2024. At the close of fiscal 2021 the town held \$115.6 million in available fund balance across all funds, equal to a strong 36.8% of total revenues (see exhibit). The town's governmental funds account for 72% of total revenues; the town's business type activities (which includes water, sewer and housing) comprises 28%. The town's governmental funds derived 73.7% of revenues from property taxes with 17.8% and 4.3% from intergovernmental revenues (primarily funding education) and charges for services respectively. Management is committed to increasing the tax levy to the 2.5% cap annually which, in conjunction with new development, will sustain revenue growth over the medium term.

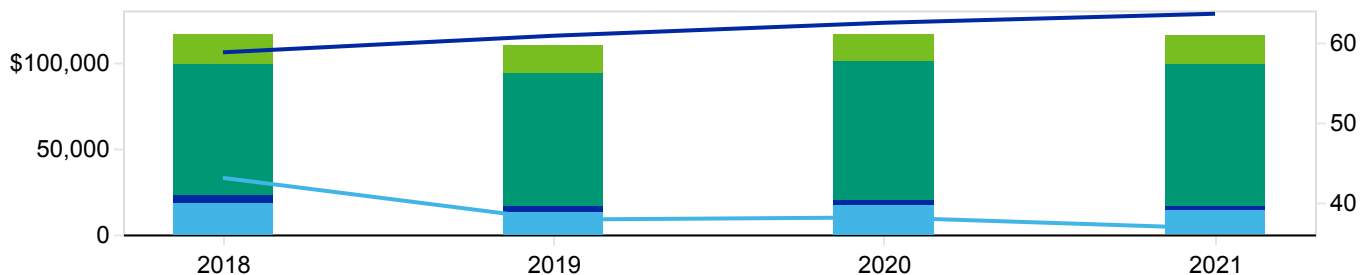
Unaudited results for fiscal 2022 estimate an \$11.6 million surplus in the general fund. Management estimates that general fund revenues will increase by 3.9% and 3.4% in fiscal years 2023 and 2024, per the town's 2024 recommended budget. As revenues have increased, management has opted to maintain current levels of service while utilizing dedicated tax levies to increase the capital stabilization and retirement funds. Additionally, operating turnbacks from departments are put towards capital projects instead of operating expense. Management's efforts towards harnessing growth to aggressively fund reserves and capital needs allows for a significant contingency should market conditions change and/or revenues fall short of projections.

In both the water and sewer funds, management is moving towards cash financing of capital improvements to save on interest costs in the long term. Management is also considering creating a stormwater fund to cover capital expenses (typically about \$2.5 million annually) to improve and maintain proper drainage; the fund would be financed by the additional fee on utilities. Estimated average bill would be \$89 annually for residents.

Exhibit 3

Fund Balance

■ General fund
 ■ Other governmental funds
 ■ Internal service funds
 ■ Business-type activities
— Available fund balance ratio (%)
 — Aaa median available fund balance ratio (%)



Source: Moody's Investors Service

Liquidity

Lexington's net unrestricted cash totaled \$166.1 million at the close of fiscal 2021, equal to 52.8% of total revenues

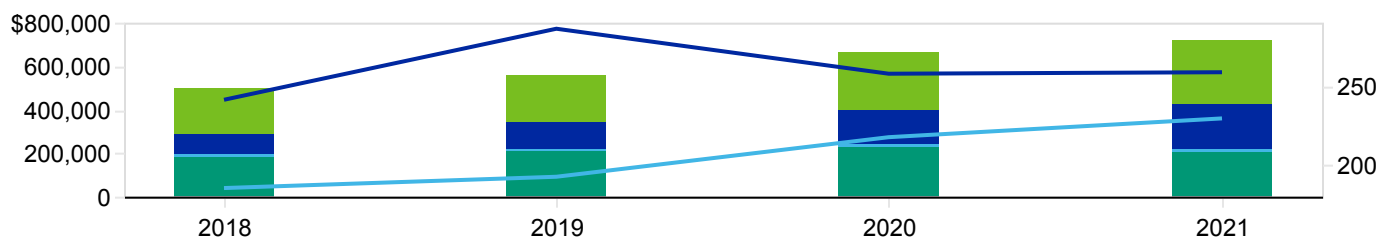
Leverage: Moderate leverage inclusive of long term plans

Lexington's leverage will increase over the medium term given current plans which includes the construction of a new high school. The town's current leverage, calculated as Moody's adjusted unfunded pension and OPEB liabilities and outstanding debt, equals 229.5% of revenues. The high school project, which is nearing design phase, is preliminarily estimated to cost around \$350 million to \$500 million, with the Massachusetts School Building Authority covering about 25% of total costs. Of the remaining cost, management expects continued commercial growth to cover about 50% of the anticipated \$15 to \$20 million annual debt service for the project.

Exhibit 4

Lexington's leverage is average and is expected to be driven by the debt burden and OPEB liability over the long-term

■ Governmental Debt
 ■ Business-Type Activity Debt
 ■ Adjusted net pension liabilities
■ Adjusted net other post-employment liabilities
 ■ Other long-term liabilities
 — Long-term liabilities ratio (%)
— Aaa median long-term liabilities ratio (%)



Source: Moody's Investors Service

Legal security

The bonds are backed by the town's full faith and credit general obligation limited tax pledge as not all debt service has been voted by the town as excluded from the tax levy limit of Proposition 2 ½.

Debt structure

The town's entire debt portfolio is fixed rate with a final maturity of 2049.

Debt-related derivatives

Lexington has no debt-related derivatives.

Pensions and OPEB

Lexington's pension and OPEB liabilities on a reported basis are smaller than the debt burden and, though manageable at this time, represent a potential future credit challenge. The town participates in the Lexington Retirement System, a single-employer defined benefit plan, and makes annual required contributions based on at least its proportional share. The town is still on track to fully fund its pension obligations by 2030 after which the town will more aggressively fund its OPEB obligations. Currently OPEB is funded at about \$1.9 million annually with an increase of \$50,000 each year. The town's teachers participate in the Massachusetts Teachers Retirement System in which the town receives on-behalf payments toward that liability that is covered by the Commonwealth.

ESG considerations

Lexington (Town of) MA's ESG Credit Impact Score is Neutral-to-Low CIS-2

Exhibit 5

ESG Credit Impact Score

CIS-2

Neutral-to-Low

For an issuer scored CIS-2 (Neutral-to-Low), its ESG attributes are overall considered as having a neutral-to-low impact on the current rating; i.e., the overall influence of these attributes on the rating is non-material.

NEGATIVE : POSITIVE
IMPACT : IMPACT

Source: Moody's Investors Service

The City of Lexington's ESG credit impact score is neutral-to-low (**CIS-2**), reflecting neutral to low environmental exposure, neutral to low social risk and a strong governance profile that supports the city's credit rating, resilience and capacity to respond to shocks.

Exhibit 6

ESG Issuer Profile Scores

ENVIRONMENTAL

E-2

Neutral-to-Low



SOCIAL

S-2

Neutral-to-Low



GOVERNANCE

G-1

Positive



Source: Moody's Investors Service

Environmental

Lexington's E environmental issuer profile score is neutral to low (**E-2**). The city's carbon transition, natural capital, and water and pollution risks are modest. Given Lexington's geographical location, physical climate risk is also neutral to low with no material exposure to sea level rise and moderate exposure to shocks from extreme weather events such as hurricanes and nor-easters.

Social

Lexington's S social issuer profile score is neutral-to-low (**S-2**). Lexington benefits from favorable educational attainment and health and safety. City residents have access to basic services and risks associated with demographics, labor and income and housing are limited.

Governance

Lexington's G governance issuer profile score is positive (**G-1**). The city has a favorable institutional structure, transparency and disclosure. The city also consistently approves and releases its budgets and audited financial statements in a timely manner. Lexington's

budget management and policy credibility and effectiveness are considered strong as evident by its healthy financial position and trend of balanced operations.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click [here](#) to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Rating methodology and scorecard factors

The US Cities and Counties Rating Methodology includes a scorecard, which summarizes the rating factors generally most important to city and county credit profiles. Because the scorecard is a summary, and may not include every consideration in the credit analysis for a specific issuer, a scorecard-indicated outcome may or may not map closely to the actual rating assigned.

Exhibit 7

Lexington (Town of) MA

	Measure	Weight	Score
Economy			
Resident income ratio	253.7%	10.0%	Aaa
Full value per capita	\$459,915	10.0%	Aaa
Economic growth metric	0.7%	10.0%	Aaa
Financial Performance			
Available fund balance ratio	36.8%	20.0%	Aaa
Liquidity ratio	52.8%	10.0%	Aaa
Institutional Framework			
Institutional Framework	Aa	10.0%	Aa
Leverage			
Long-term liabilities ratio	229.5%	20.0%	A
Fixed-costs ratio	9.5%	10.0%	Aaa
Notching factors			
Additional Strength in Local Resources	1.5		
Scorecard-Indicated Outcome			Aaa
Assigned Rating			Aaa

Sources: US Census Bureau, Lexington (Town of) MA's financial statements and Moody's Investors Service

Appendix

Exhibit 8

Key Indicators Glossary

	Definition	Typical Source*
Economy		
Resident income ratio	Median Household Income (MHI) for the city or county, adjusted for Regional Price Parity (RPP), as a % of the US MHI	MHI: US Census Bureau RPP: US Bureau of Economic Analysis
Full value	Estimated market value of taxable property in the city or county	State repositories; audited financial statements; continuing disclosures
Population	Population of the city or county	US Census Bureau
Full value per capita	Full value / population	
Economic growth metric	Five year CAGR of real GDP for Metropolitan Statistical Area or county minus the five-year CAGR of real GDP for the US	Real GDP: US Bureau of Economic Analysis
Financial performance		
Revenue	Sum of revenue from total governmental funds, operating and non-operating revenue from total business-type activities, and non-operating revenue from internal services funds, excluding transfers and one-time revenue, e.g., bond proceeds or capital contributions	Audited financial statements
Available fund balance	Sum of all fund balances that are classified as unassigned, assigned or committed in the total governmental funds, plus unrestricted current assets minus current liabilities from the city's or county's business-type activities and internal services funds	Audited financial statements
Net unrestricted cash	Sum of unrestricted cash in governmental activities, business type activities and internal services fund, net of short-term debt	Audited financial statements
Available fund balance ratio	Available fund balance (including net current assets from business-type activities and internal services funds) / Revenue	
Liquidity ratio	Net unrestricted cash / Revenue	
Leverage		
Debt	Outstanding long-term bonds and all other forms of long-term debt across the governmental and business-type activities, including debt of another entity for which it has provided a guarantee disclosed in its financial statements	Audited financial statements; official statements
Adjusted net pension liabilities (ANPL)	Total primary government's pension liabilities adjusted by Moody's to standardize the discount rate used to compute the present value of accrued benefits	Audited financial statements; Moody's Investors Service
Adjusted net OPEB liabilities (ANOL)	Total primary government's net other post-employment benefit (OPEB) liabilities adjusted by Moody's to standardize the discount rate used to compute the present value of accrued benefits	Audited financial statements; Moody's Investors Service
Other long-term liabilities (OLTL)	Miscellaneous long-term liabilities reported under the governmental and business-type activities entries	Audited financial statements
Long-term liabilities ratio	Debt + ANPL + ANOL + OLTL / Revenue	
Fixed costs		
Implied debt service	Annual cost to amortize city or county's long-term debt over 20 years with level payments	Audited financial statements; official statements; Moody's Investors Service
Pension tread water contribution	Pension contribution necessary to prevent reported unfunded pension liabilities from growing, year over year, in nominal dollars, if all actuarial assumptions are met	Audited financial statements; Moody's Investors Service
OPEB contribution	City or county's actual contribution in a given period	Audited financial statements
Implied cost of OLTL	Annual cost to amortize city or county's other long-term liabilities over 20 years with level payments	Audited financial statements; Moody's Investors Service
Fixed-costs ratio	Implied debt service + Pension tread water + OPEB contributions + Implied cost of OLTL / Revenue	

*Note: If typical data source is not available then alternative sources or proxy data may be considered. For more detailed definitions of the metrics listed above please refer to the [US City and Counties Methodology](#).

Source: Moody's Investors Service

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